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Golden opportunity

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Dependent on its wealth of natural resources, Kazakhstan is now aiming to diversify its economy into seven areas linked to oil and gas to become one of the world's top 50 most competitive countries by 2015. By **Ginanne Brownell**.

The windy steppe city of Astana, Kazakhstan, is a surreal place full of juxtaposing fantastical architectural influences. There are 'ancient' Greek ruins, a huge pyramid (designed by British architect Norman Foster, the official name is the Palace of Peace and Reconciliation), an apartment building reminiscent of the Seven Sisters skyscrapers in Moscow, and a Brandenburg-esque gate near the Palace of Independence. The KazMunaiGas gas building is an enormous structure that resembles a palace with a huge archway, while another Norman Foster-designed building, the Khan Shatyr (Royal Marquee), known locally as the 'Giant Yurt', is a soon-to-be opened spectacular indoor city for 10,000 people that will accommodate shops, sports, a beach resort, a boating river and music complexes.

But the crowning glory (at least to Kazakhstan's president Nursultan Nazarbayev) of all this capricious mish-mash is the Baiterek Tower – also called the Tree of Life – which is 97 metres high and has a golden egg made of gold mirror glass held up by white steel. An escalator takes people up inside the egg where there is an observation deck offering panoramic views.

Love it or hate it, the purpose-built capital of Astana is here to stay; since 1997 when Mr Nazarbayev decided to move the capital from Almaty – near the Kyrgyzstan and Chinese borders – to Astana, in the centre of the country, billions of dollars have been sunk into changing the new capital city's skyline. If any place characterises the gaucheness of nouveau oil and gas money, it is Astana.

Beyond energy

Yet despite its outward gaucheness, there is a deep understanding within the government that the country (11th largest in the world in terms of crude oil reserves, estimated at 30 billion barrels) must diversify away from its almost sole dependence on oil and gas. Mr Nazarbayev has been credited with the understanding that the country should not suffer from 'Dutch disease' – defined as the negative consequences that arise from large increases to a country's income primarily associated with a natural resource discovery. In December, his Foreign Investors Council (FIC) – which includes members such as ArcelorMittal CEO Lakshmi Mittal and ConocoPhillips CEO James Hukula – met in Astana for the 22nd plenary session to discuss how the country could improve investor relations and how to work on the country's diversification process. "We cannot remain a lopsided economy," Mr Nazarbayev stated during the meeting. "We are no longer just going to supply raw materials."

Seven areas of diversification

According to Bakhyt Sultanov, Kazakhstan's minister of economy, diversification is a long-term goal for the country, which is the size of western Europe. The government has identified seven sectors for investment and diversification that include agriculture, petrochemicals, metallurgy, ready-made metal products, machine building, tourism and transport. "I told FDI Magazine during an interview in Astana, "We are trying to use the available natural wealth, capacity and resources and of course the geo-economic situation."

Mr Sultanov says that several projects have been identified for possible investment, which are worth an estimated \$4bn. "We have calculated that in the next five years these projects are capable of seriously shifting the structure of the economy," he adds.

But it has been the oil and gas sector that has fuelled the economic growth of this central Asian state since the country gained independence from the Soviet Union in 1991, the last of the republics to do so. According to the book *The New Great Game: Blood and Oil in Central Asia* by Lutz Kleveaman, naive early investment deals struck between the Kazakh government and multinational oil and gas companies were later perceived as unfair by the country because the contracts were seen as taking advantage of Kazakhstan's inexperience and need for foreign cash; the government has since toughened up regulations on foreign investors.

According to greenfield investment tracker FDI Markets, since 2003 the country has seen 255 investment projects from 211 companies worth \$3.9bn. In 2007, the country saw a 32% growth in foreign investments worth \$4.41bn, while 2008 saw almost 82% growth and a staggering \$20.97bn in investments. These investments helped Kazakhstan repay its IMF loan – seven years ahead of schedule and the first of the former Soviet republics to do so.

However, the recent global downturn has not been kind to Kazakhstan; the country suffered a major financial (and credibility) blow last year when the recession uncovered weaknesses in the Kazakhstan economy; its growth rate dropped by almost 20% in 2008 to 3.2% and hit a negative 2% GDP last year. Four of the country's major banks – including Kazakhstan's largest, Bank Turan-Alem, which was rocked by a fraud scandal – have required government support. Two banks have been nationalised and two given cash injections.

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